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FLATHEAD VALLEY COMMUNITY COLLEGE
KALISPELL, MONTANA

REPORT ON AUDIT

Conducted Under Contract By
Richard B. Hobbs P.C.
Certified Public Accountant

Two Years Ended June 30, 1988

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FLATHEAD VALLEY COMMUNITY COLLEGE

Financial Report
Years ended June 30, 1988 and 1987

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STATE OF MONTANA

Office of the Legislative Auditor

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MARY BRYSON
Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

May 10, 1989

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Flathead Valley Community College for the fiscal year ended June 30, 1988.

The audit was conducted by Richard B. Hobbs, Certified Public Accountant under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is included in the back of the audit report.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

JB/v/z6.ltr

FLATHEAD VALLEY COMMUNITY COLLEGE

APPOINTED AND ADMINISTRATIVE OFFICIALS

Board of Regents of Higher Education

		Term Expires
Ted Schwinden, Governor*		1988
Ed Argenbright, Superintendant of Public Instruction*		1988
Dennis Lind, Chairman	Missoula	1989
Bert Hurwitz, Vice-Chairman	White Sulphur Springs	1993
Scott Birkenbuel, Student Regent	Bozeman	1987
Jeffrey Morrison	Helena	1994
Elsie Redlin	Lambert	1991
Beatrice McCarthy	Anaconda	1990
Jim Kaze	Havre	1992

* Ex officio members

Commissioner of Higher Education

Dr. Carroll Krause	Commissioner of Higher Education

Board of Trustees

Dr. Kenneth A. Madsen, DDS, Chairperson	1987
Michael Jensen,	1987
William R. Irvin	1988
Shirley Bowdish	1988
Tom Weaver	1989
Dr. H.C. Ross, D.V.M.	1987
Susan Lacosta	1987

Administration

Dr. Howard L. Fryett	President
Dr. Dennis Adams	Dean, Educational Services
Dr. Charles J. Corrigan	Dean, Administrative Services
Kathy Huges	Director of Community Education
Larry Rasmussen, CPA	Controller
Loraine Bundrock	Director of Student Services
Carolyn Flynn	Director of Management Information Systems

RICHARD B. HOBBS, P.C.
CERTIFIED PUBLIC ACCOUNTANT

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BILLINGS, MONTANA 59101
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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Flathead Valley Community College
Kalispell, Montana

I have audited the general purpose financial statements of Flathead Valley Community College as of and for the years ended June 30, 1988 and 1987 as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of Flathead Valley Community College's management. My responsibility is to express an opinion on these general purpose financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the accompanying general purpose financial statements referred to above present fairly, in all material respects, the financial position of Flathead Valley Community College at June 30, 1988 and 1987 and the changes in fund balances and the current funds revenues, expenditures and other changes for the years then ended, in conformity with generally accepted accounting principles.

My audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplemental information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of Flathead Valley Community College. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements, and in my opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

March 30, 1989

Richard B Hobbs

FLATHEAD VALLEY COMMUNITY COLLEGE
BALANCE SHEETS
JUNE 30, 1988 AND 1987

ASSETS	1988	1987	LIABILITIES AND FUND BALANCES	1988	1987
		CURRENT FUNDS			
		Unrestricted			
		General Operating			
Equity in pooled cash	$ 204,615	$ 415,723	Accounts payable	$ 123,886	$ 43,591
Petty cash	500	550	Deferred revenue	69,920	18,350
Receivables -			Accrued employee leave	227,675	197,474
Tuition, less allowance for doubtful accounts of $8,354 in 1988 and $11,427 in 1987	21,613	19,751	Fund balance	234,422	466,787
Taxes, less allowance for doubtful accounts of $26,893 in 1988 and $27,099 in 1987	383,207	278,537			
Other receivables	4,022	1,509			
Due from other funds	48,415				
Prepaid expenses	14,547	10,330			
Total general operating	696,720	725,170	Total general operating	696,720	725,170
		Designated			
Equity in pooled cash	117,877	96,085	Accounts payable	886	4,126
Accounts receivable	2,824	2,747	Deferred revenue	2,700	2,700
			Due to other funds	1,996	
			Fund balance	115,306	91,815
Total designated	120,701	98,832	Total designated	120,701	98,832
		Auxiliary			
Accounts receivable	757	47,544	Accounts payable		11,551
Inventory	104,507	107,605	Due to other funds	71,669	99,471
			Fund balance	34,195	44,114
Total auxiliary	105,264	155,149	Total auxiliary	105,864	155,149
Total unrestricted	882,985	979,081	Total unrestricted	882,985	979,081
		RESTRICTED			
Equity in Pooled Cash	2,409	2,336	Accounts payable	517	27,268
Receivables			Accrued employee leave	7,893	12,042
Taxes, less allowance for doubtful accounts of $26,893 in 1988 and $27,099 in 1987	103,875	82,693	Deferred revenue Due to grantor	2,000 12,773	2,000 67,709
Grants	170,102	65,333	Due to other funds	43,638	
			Fund balance	91,543	24,721
Total restricted	275,390	150,355	Total restricted	275,390	150,355
Total current funds	$ 1,159,875	$ 1,129,079	Total current funds	$ 1,159,875	$ 1,129,079
		STUDENT LOAN FUNDS			
Equity in pooled cash	$ 758	$ 2	Accounts payable	$ 0	$ 17
Loans to students	3,681	3,153	Fund balance	4,439	3,138
	$ 4,439	$ 3,155		$ 4,439	$ 3,155

(Continued)

FLATHEAD VALLEY COMMUNITY COLLEGE
BALANCE SHEETS
JUNE 30, 1988 AND 1987

ASSETS	1988	1987	LIABILITIES AND FUND BALANCES	1988	1987
PLANT FUNDS					
Unexpended					
Equity in pooled cash	$ 154,948	$ 125,444	Deferred revenues	$ 19,571	$ 7,807
Accounts receivable, less allowance for doubtful accounts of $ 0 and $2,857 in 1988 and 1987, repectively,	947	1,015	Accrued interest payable Fund balance	16,327 130,697	13,565 107,703
Total unexpended	165,215	126,459	Total unexpended	165,615	129,455
Investment in Plant					
Land, buildings and improvements	1,376,698	1,376,698	Notes payable	481,084	485,323
Equipment	1,776,115	1,657,158	Net investment in plant	3,091,761	2,662,780
Library books and films	136,772	117,053			
Total investment in plant	3,918,785	3,148,109	Total investment in plant	3,518,785	3,148,109
Total Plant Funds	$ 3,678,100	$ 3,677,568	Total Plant Funds	$ 3,678,400	$ 3,277,568
AGENCY FUNDS					
Equity in pooled cash	$ 31,665	$ 5,145	Deposits held for others	$ 31,665	$ 5,145
Total agency funds	$ 31,665	$ 5,145	Total agency funds	$ 31,665	$ 5,145

See accompanying notes to financial statements

FLATHEAD VALLEY COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 1988

	Current Funds		
	General Operating	Designated	Auxiliary
REVENUES AND OTHER ADDITIONS			
Unrestricted current fund revenues	$ 3,248,939	$ 150,921	$ 219,776
Gifts, grants, and contracts	0	0	0
Local appropriations	0	0	0
Student fees	0	0	0
Interest on investments	0	0	0
Other sources	0	0	0
Expended for plant facilities (includes $278,019 charged to current fund expenditures)	0	0	0
Retirement of indebtedness	0	0	0
Total revenue and other additions	3,248,939	150,921	219,776
EXPENDITURES AND OTHER DEDUCTIONS			
Educational and general expenditures	3,333,461	167,257	0
Auxiliary enterprise expenditures	0	0	229,555
Expended for plant facilities	0	0	0
Disposal of plant facilities	0	0	0
Retirement of indebtedness	0	0	0
Interest on indebtedness	0	0	0
Total expenditures and other deductions	3,333,461	167,257	229,555
TRANSFERS AMOUNG FUNDS			
Mandatory:			
Principal and interest	(59,392)	0	0
Renewals or replacements	0	0	0
Transfers from agency	0	0	0
Transfers within current funds	(39,750)	39,827	0
Total transfers	(99,142)	39,827	0
NET INCREASE (DECREASE) IN FUND BALANCE	(183,664)	23,491	(9,779)
FUND BALANCE - BEGINNING	468,087	91,815	44,014
FUND BALANCE - ENDING	$ 284,423	$ 115,306	$ 34,235

See accompanying notes to financial statements

		Plant Funds	
Restricted	Student Loan Funds	Unexpended	Investment In Plant
$ 0	$ 0	$ 0	$ 0
981,228	0	0	0
106,721	0	0	0
58,099	0	153,042	0
320	0	74	0
0	0	2,353	0
0	0	0	364,676
0	0	0	64,299
1,146,368	0	155,469	428,975
1,079,464	0	22,227	0
0	0	0	0
0	0	53,353	0
0	0	0	0
0	0	64,299	0
0	0	52,591	0
1,079,464	0	192,470	0
0	0	59,392	0
0	0	0	0
0	1,400	0	0
(77)	0	0	0
(77)	1,400	59,392	0
66,827	1,400	22,391	428,975
24,721	3,038	107,706	2,662,786
$ 91,548	$ 4,438	$ 130,097	$ 3,091,761

FLATHEAD VALLEY COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 1987

	Current Funds		
	General Operating	Designated	Auxiliary
REVENUES AND OTHER ADDITIONS			
Unrestricted current fund revenues	$ 3,230,098	$ 91,091	$ 198,740
Gifts, grants, and contracts	0	0	0
Local appropriations	0	0	0
Student fees	0	0	0
Interest on investments	0	0	0
Other sources	0	0	0
Expended for plant facilities (includes $283,826 charged to current fund expenditures)	0	0	0
Retirement of indebtedness	0	0	0
Total revenue and other additions	3,230,098	91,091	198,740
EXPENDITURES AND OTHER DEDUCTIONS			
Educational and general expenditures	3,076,887	72,203	0
Auxiliary enterprise expenditures	0	0	161,420
Expended for plant facilities	0	0	0
Disposal of plant facilities	0	0	0
Retirement of indebtedness	0	0	0
Interest on indebtedness	0	0	0
Total expenditures and other deductions	3,076,887	72,203	161,420
TRANSFERS AMOUNG FUNDS			
Mandatory:			
Principal and interest	(155,986)	0	0
Renewals or replacements	(24,113)	0	0
Transfers from agency	0	0	0
Transfers within current funds	(16,271)	17,106	0
Total transfers	(196,370)	17,106	0
NET INCREASE (DECREASE) IN FUND BALANCE	(43,159)	35,994	37,320
FUND BALANCE - BEGINNING	511,246	55,821	6,694
FUND BALANCE - ENDING	$ 468,087	$ 91,815	$ 44,014

See accompanying notes to finanical statements

		Plant Funds	
Restricted	Student Loan Funds	Unexpended	Investment In Plant
$ 0	$ 0	$ 0	$ 0
967,026	0	72	0
103,550	0	0	0
12,286	0	31,741	0
313	0	1,087	0
200	0	1,477	0
0	0	0	320,124
0	0	0	69,319
1,083,375	0	34,377	389,443
1,095,757	0	3,098	0
0	0	0	0
0	0	36,856	0
0	0	0	0
0	0	69,319	0
0	0	52,542	0
1,095,757	0	161,815	0
0	0	155,986	0
0	0	24,113	0
0	(25)	0	0
(835)	0	0	0
(835)	(25)	180,099	0
(13,217)	(25)	52,661	389,443
37,938	3,063	55,045	2,273,343
$ 24,721	$ 3,038	$ 107,706	$ 2,662,786

FLATHEAD VALLEY COMMUNITY COLLEGE
STATEMENT OF CURRENT FUND REVENUES, EXPENDITURES, AND OTHER CHANGES
YEAR ENDED JUNE 30, 1988

	Unrestricted	Designated	Auxiliary
REVENUES			
Tuition and fees	$ 318,636	$ 84,987	$ 0
State appropriations	1,622,024	0	0
Local appropriations	1,290,623	0	0
Federal grants and contracts	16,250	0	0
State grants and contracts	0	0	0
Private gifts, grants, and contracts	0	0	0
Investment income	0	912	0
Auxiliary enterprises sales and services	0	0	219,776
Other revenues	1,406	65,022	0
Total current revenues	3,248,939	150,921	219,776
EXPENDITURES AND MANDATORY TRANSFERS			
Educational and general			
Instruction	1,669,986	85,963	0
Public service	0	33,802	0
Academic support	336,282	0	0
Student services	314,647	0	0
Institutional support	652,124	47,491	0
Operation and maintenance of plant	292,323	0	0
Scholarships and fellowships	68,099	0	0
Educational and general expenditures	3,333,461	167,256	0
Mandatory transfers for:			
Principal and interest	59,392	0	0
Renewals and replacements	0	0	0
Total educational and general	3,392,853	167,256	0
Auxiliary enterprises expenditures	0	0	229,555
Total expenditures and transfers	3,392,853	167,256	229,555
OTHER TRANSFERS AND ADDITIONS/DEDUCTIONS			
Transfers from agency			
Transfers with current funds	(39,750)	39,827	
Excess of restricted receipts over expenditures			

See accompanying notes to financial statements

Restricted	Total
$ 58,102	$ 461,725
0	1,622,024
106,721	1,397,344
981,228	997,478
0	0
0	0
320	1,232
0	219,776
0	66,428
1,146,371	4,766,007
138,488	1,894,437
0	33,802
0	336,282
0	314,647
5,500	705,115
15,201	307,524
920,275	988,374
1,079,464	4,580,181
	59,392
	0
1,079,464	4,639,573
	229,555
1,079,464	4,869,128
(77)	0
66,827	66,827

FLATHEAD VALLEY COMMUNITY COLLEGE
STATEMENT OF CURRENT FUND REVENUES, EXPENDITURES, AND OTHER CHANGES
YEAR ENDED JUNE 30, 1987

	Unrestricted	Designated	Auxiliary
REVENUES			
Tuition and fees	$ 429,699	$ 60,405	$ 0
State appropriations	1,511,235	0	0
Local appropriations	1,268,010	0	0
Federal grants and contracts	16,072	0	0
State grants and contracts	0	0	0
Private gifts, grants, and contracts	0	0	0
Investment income	4,995	66	0
Auxiliary enterprises sales and services	0	0	198,740
Other revenues	87	30,620	0
Total current revenues	3,230,098	91,091	198,740
EXPENDITURES AND MANDATORY TRANSFERS			
Educational and general			
Instruction	1,642,276	27,072	0
Public service	0	34,344	0
Academic support	302,973	0	0
Student services	298,632	0	0
Institutional support	490,573	10,748	0
Operation and maintenance of plant	262,115	39	0
Scholarships and fellowships	80,318	0	0
Educational and general expenditures	3,076,887	72,203	0
Mandatory transfers for:			
Principal and interest	155,986	0	0
Renewals and replacements	24,113	0	0
Total educational and general	3,256,986	72,203	0
Auxiliary enterprises expenditures	0	0	161,420
Total expenditures and transfers	3,256,986	72,203	161,420
OTHER TRANSFERS AND ADDITIONS/DEDUCTIONS			
Transfers from agency			
Transfers with current funds	(16,271)	17,106	
Excess of restricted receipts over expenditures			

See accompanying notes to financial statements

Restricted	Total
$ 12,286	$ 502,390
0	1,511,235
103,550	1,371,560
967,026	983,098
0	0
0	0
313	5,374
0	198,740
200	30,907
1,083,375	4,603,304
	0
144,743	1,814,091
104,171	138,515
73,858	376,831
108,296	406,928
212,857	714,178
176	262,330
451,656	531,974
1,095,757	4,244,847
	155,986
	24,113
1,095,757	4,424,946
	161,420
1,095,757	4,586,366
(835)	0
(13,217)	(13,217)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Flathead Valley Community College was established in April 1967, under the statutory provisions for community colleges enacted by the 1965 Montana Legislative Assembly. It serves the residents of Flathead County which comprises it's college district, as well as residents from other parts of the State and throughout the nation. The College is fully accredited by the Northwest Association of Schools and Colleges.

Under the laws of Montana, the Board of Regents of Higher Educations is vested with the general supervision of community colleges. Flathead Valley Community College is governed by a board of trustees elected from the community. The college president is responsible for the immediate direction, management, and control of the institution.

Flathead Valley Community College offers the following instructional services for which associate degrees and/or certificates of completion may be granted:

1. Freshman and sophomore courses for transfer to a four-year university or college leading toward a baccalaureate degree.

2. Occupational education for entry into specific vocations and upgrading in order to increase effectiveness on the job.

3. Developmental education for students who are not prepared for college work and/or occupational programs.

4. Continuing education for individuals in the community who may desire further general education in a vocational field or in a social, cultural interest. Programs and courses can be varied and modified to meet the needs and demands of the community.

Basic funding for the current operations of the College is provided from the state general fund, student tuitions and fees, and a mandatory district levy.

Accrual Basis

The accompanying financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles for colleges and universities. The statement of current funds revenues, expenditures and other changes is a statement of financial activities of current funds related to the current reporting periods and does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenue and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt amortization and interest; and (3) as transfers of a nonmandatory nature for all other cases.

Fund Accounting

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the College, the accounts of the College are maintained in accordance with the principles of "fund accounting". This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

The common characteristics of the funds contained in the various fund groups are as follows:

Current funds - The current funds group includes economic resources expendable in performing the primary objectives of the College. The current funds group has two distinct subgroups: unrestricted funds, which have no expenditure restrictions, and restricted funds, which have expenditure restrictions. Unrestricted funds are further divided into three subgroups: general operating, designated and auxiliary. Restricted current funds are available for financing current operations, but limited by external donor's and funding agencies to specific purposes.

Student loan funds - The resources from this group of funds are available to students for emergency loans.

Plant funds - Plant funds are separated into two subgroups: Unexpended plant fund, which is for the acquisition of long-term institutional assets and investment in plant, which contains the cost of long-term institutional assets and related liabilities.

Agency funds - Agency funds account for funds held in a fiduciary or custodial capacity for individuals, faculty, staff and student organizations.

Inventory

Inventory, which consists of books and supplies in the bookstore, is stated at cost which approximates the lower of cost (first-in, first-out method) or market.

Property and Equipment

Physical plant and equipment are stated at cost at the date of acquisition or fair value at the date of donation in the case of donated property. Depreciation on physical plant and equipment is not recorded.

Deferred Revenues

Summer school tuition and fee collections are deferred at June 30 and recorded as revenue in the succeeding fiscal year.

CASH BALANCES

Except for petty cash, cash is held by the Flathead County Treasurer. The College directs the investment of money pursuant to the provisions of the Montana Code.

INVESTMENTS

As previously noted, substantially all cash of the College is administered through the Flathead County Treasurer's office. The College entered into an agreement with Flathead County to have cash on deposit invested in the County's investment pool. The College's agreement with the County requires the County to make distributions of interest income to Flathead Valley Community College monthly, based on the cash invested by the College.

NOTES PAYABLE

Notes payable at June 30, consist of the following:

	1988	1987
11% contract payable, due in monthly installments of $2,521 for interest only to October, 1993, then due in monthly installments of $3,126, including interest to October 2008, secured by land	$275,000	$275,000
10% contract payable, due in annual installments of $50,000, including interest, to November 1992, secured by land	137,022	170,020
10% note payable, due in monthly installments of $2,125 including interest, to August 1988, secured by land.	8,387	31,760
10% note payable, due in installments of $19,641 and $8,184, on July 1, 1987 and 1986, respectively, secured by equipment	0	7,440
10 1/2% note payable, due in monthly installments of $41, including interest, to September 1989, secured by equipment	615	1,103
	$421,024	$485,323

Notes payable maturities are as follows:

1989	$ 43,084
1990	38,383
1991	42,420
1992	22,138
1993	5,650
Thereafter	269,349
	$421,024

PENSION AND RETIREMENT FUND

Public Employee's Retirement (PERS)

PERS, a mandatory system, provides benefits to nonteaching employees who work more than 960 hours per year. Others, at their option, may participate.

Employees who retire (1) at or after age 60 with five years of creditable service, (2) at or after age 65 regardless of years of service, or (3) with 30 or more years of creditable service are entitled to a retirement benefit, payable monthly for the life of the member and/or beneficiary. The benefit amount is the number of years of creditable service, divided by 60, and multiplied by the final compensation which is the sum of the three highest consecutive years' salary, divided by 36. Benefits fully vest after five years of service. Vested employees may retire at age 50 with five years or with twenty five years of service and receive reduced benefits.

Covered employees are required by State statute to contribute 6 percent of their salary to the plan. The College is similarly required by State statute to contribute 6.417 percent of covered payroll. Whether the State of Montana or the local government employers are ultimately responsible for any underfunding of PERS is unclear in State Law.

Teachers Retirement System (TRS)

All of the College employees that work 210 hours per year as Teachers or professional staff must participate.

Employees who retire (1) at or after age 60 or with 25 or more years of creditable service are entitled to a retirement benefit, payable monthly for the life of the member and/or beneficiary. The benefit amount is the number of years of creditable service, divided by 60, and multiplied by the final compensation, which is the average of the highest three consecutive years' of earned compensation. Benefits fully vest after five years of service. Vested employees may retire at age 50 and five years of service but will receive reduced benefits.

Covered employees are required by State statute to contribute 7.044 percent of their salary to the plan. The College is similarly required to contribute 7.428 percent of covered payroll. Whether the State of Montana or the local government employers are ultimately responsible for any underfunding of TRS is unclear in State Law.

Pension Contributions were as follows:

	PERS		TRS	
Contributions:	1988	1987	1988	1987
Employees	$46,275	$42,213	$52,835	$124,738
Employer	46,283	45,146	55,716	131,539
Number of employees	53	47	143	119

College contributions represented less than 1% of the total plan.

Actuarial valuations for the plans were completed as of July 1, 1986 (PERS) and July 1, 1987 (TRS). These valuations were authorized under Title 19 M.C.A. The purpose of the valuation was to determine the financial position, the normal cost, and the unfunded accrued liability based upon present and prospective assets and liabilities as of the effective dates.

The method of funding used is commonly referred to as the entry age normal cost method. This method established a normal cost of the plan as well as an unfunded accrued liability. The normal cost is the level percentage of total salaries required to fund the benefits, assuming this percentage has been contributed since each member's entry into the plan.

The unfunded accrued liability represents the excess of the present value of total liabilities over the present assets of the plan and the present value of expected future contributions for the normal cost.

In order to maintain a plan on an actuarially sound basis, the rate of contributions should be such as to meet the normal cost in addition to making progress towards the amortization of the unfunded liability. The plan's actuary determined all of the retirement systems are funded on an actuarially sound basis.

Based on these actuarial valuations, the following is a summary of plan financial position (in millions):

	PERS	TRS
Fund Assets	$ 559	$ 504
Present Value - Future Normal Costs	368	246
Future Normal Costs	927	750
Present Value of Benefits - Inactive	318	396
Fund Assets	884	940
Total	1,202	1,336
Unfunded Liability	$ 275	$ 586

COMMITMENTS AND CONTINGENCIES

Commitments

The College leases certain facilities under annually renewable operating leases. Total rent expenditures for the years ending June 30, 1988 and 1987 are $113,061 and $96,434, respectively.

Contingencies

Prior to the Summer academic quarter of 1985, the College did not withhold employee, nor pay employer, contributions on behalf of part-time faculty members. Membership is compulsory by such individuals. Discussions with representatives of the Montana Teachers' Retirement System indicates that, should effected individuals request coverage for past services, the College will be required to pay applicable employer contributions, plus interest. The potential liability arising from this contingency cannot reasonably be estimated at this time, and no provision has been made in the accompanying financial statements.

FLATHEAD VALLEY COMMUNITY COLLEGE
SCHEDULE OF GRANTS AND CONTRACT EXPENDITURES
YEARS ENDED JUNE 30, 1988 AND 1987

Grant		Revenue	Expenditures 1988	1987
U.S. DEPARTMENT OF EDUCATION				
Pell	P00883562	$ 359,654	$ 358,583	
Pell	P00873562	369,830		$ 369,830
Pell - Admin Allowance	R00883562	1,750	1,750	
Pell - Admin Allowance	R00873562	1,705		1,705
College Work Study	P008812416	31,762	31,762	
College Work Study	P008612416	32,674		32,674
S.E.O.G. Initial Year	P008832416	31,168	31,168	
S.E.O.G. Initial Year	P008732416	25,590		25,590
S.E.O.G. Continuing Year	P008742416	5,595		5,595
Veterns Cost of Instruction	Q008612268	1,733	1,733	
Title III	G008641996	179,420	128,544	
Title III	G008641996	201,205		200,103
Special Services	G008401531	205,529	86,025	94,324
MONTANA OFFICE OF PUBLIC INSTRUCTION				
Adult Basic Education - State	885658022085	15,099	15,109	
Adult Basic Education - State	875658022085	11,035		11,123
Adult Basic Education - Federal	88665802640	31,034	31,034	
Adult Basic Education - Federal	87665802640	24,672		24,672
JTPA - World of Work	3804JTPA	52,022	53,365	
JTPA - World of Work	3704JTPA	52,854		52,996
MONTANA COMMISSIONER OF HIGHER EDUCATION				
State Student Incentive Grant		55,722	29,342	26,380
State College Work Study		6,267	6,267	
		6,890		6,480

RICHARD B. HOBBS, P.C.
CERTIFIED PUBLIC ACCOUNTANT

707 5TH ST. WEST
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL ACCOUNTING CONTROLS BASED SOLELY ON A STUDY AND EVALUATION MADE AS PART OF AN EXAMINATION OF THE GENERAL PURPOSE FINANCIAL STATEMENTS

The Board of Trustees
Flathead Valley Community College
Kalispell, Montana

I have audited the general purpose financial statements of Flathead Valley Community College, for the years ended June 30, 1988 and 1987, and have issued my report thereon dated March 30, 1989. As part of my audit, I made a study and evaluation of the system of internal accounting control of the College to the extend I considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions. For purposes of this report, I have classified the significant internal accounting controls in the following categories:

County Treasurer's Office:	Cash Receipts
Controller	Disbursements
	Payroll
	Recordkeeping and reporting

My study included all of the control categories listed above. The purpose of my study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the entity's financial statements. My study and evaluation was more limited tan would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of controls identified above.

The management of Flathead Valley Community College is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the College's basis of accounting. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may deteriorate.

My study and evaluation made for the limited purposed described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, I do not express an opinion on the system of internal accounting control of Flathead Valley Community College, taken as a whole or on any of the categories of control identified in the first paragraph.

I noted no weaknesses in internal accounting controls which I deemed material; however, my study and evaluation did disclose the following matters which I feel should be addressed:

Prior Period Adjusting Journal Entries
The College continues to post an unusually large number of adjustments to fund balance. Accounting Principles Board Opinion 20 states that equity should be adjusted for a correction of an error. The opinion defines a correction of an error as a mathematical mistake, a mistake in the application of an accounting principle or a mistake in facts at the time the prior financial statements were prepared.

Adjustments posed to fund balances were to record immaterial expenditures paid in the current year which relate to the prior year.

Recommendation 1 - I recommend that these immaterial prior period adjustments be treated as period costs, unless they are material in relation to the College's total assets, total equity or excess of revenue over expenditures.

Reconciliation of Individual Funds
At June 30, 1986, notes payable included a note payable to IBM Systems. When the books were closed and balances brought forward, this notes payable balance was omitted resulting in an understatement of notes payable and fund balance.

Recommendation 2 - I recommend that all funds be reconciled on an individual basis to insure their accuracy.

Student Financial Aid Program
The College has not been drawing down student financial aid funds on a timely basis. Overdrafted cash for student financial aid expenditures results in "borrowing" cash from other funds.

Recommendation 3 - I recommend that the College draw down federal funds in a more timely fashion.

This report is intended primarily for the use of the management of Flathead Valley Community College. This restriction is not intended to limit the distribution of this report, which upon acceptance by the College, is a matter of public record.

March 30, 1989

Richard B Hobbs

RICHARD B. HOBBS, P.C.
CERTIFIED PUBLIC ACCOUNTANT

707 5TH ST. WEST
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE BASED ON AN EXAMINATION OF GENERAL PURPOSE FINANCIAL STATEMENTS

The Board of Trustees
Flathead Valley Community College
Kalispell, Montana

I have audited the general purpose financial statements of Flathead Valley Community College, for the years ended June 30, 1988 and 1987, and have issued my report thereon dated March 30, 1989. My audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office, and accordingly, included such tests of the accounting records and such other auditing procedures as I considered necessary in the circumstances.

The management of Flathead Valley Community College is responsible for the College's compliance with laws and regulations. In connection with my audit referred to above, I selected and tested transactions and records to determine the College's compliance with laws and regulations noncompliance with which could have a material effect on the general purpose financial statements of the College.

The results of my tests indicate that for the items tested, the College complied with those provisions of laws and regulations noncompliance with which could have a material effect on the general purpose financial statements. Nothing come to my attention that caused me to believe that for the items not tested the College was not in compliance with laws and regulations noncompliance with which could have a material effect on the College's general purpose financial statements.

In connection with my audit referred to above, I also performed tests of compliance with laws and regulations noncompliance with which would not have a material effect on the general purpose financial statements of the College. Nothing come to my attention that caused me to believe that for the items not tested the College was not in compliance with laws and regulations noncompliance with which would not have a material effect on the general purpose financial statements.

March 30, 1989

Richard B Hobbs

Flathead Valley Community College
Number One First Street East, Kalispell, Montana 59901 (406) 752-5222

May 10, 1989

Richard Hobbs, CPA
707 - 5TH Street West
Billings, MT 59101

Dear Mr. Hobbs:

The following are our responses to the recommendations that were made in your 1986-88 Flathead Valley Community College audit:

Recommendation 1

I recommend that these immaterial, prior period adjustments be treated as period costs, unless they are material in relation to the College's total assets, total equity or excess of revenue over expenditures.

Response:

Concur. Effective June 30, 1988, the prior period adjustments accounts will be treated as period costs and not adjustments to fund balances.

Recommendation 2

I recommend that all funds be reconciled on an individual basis to insure their accuracy.

Response:

Concur. The previous audit report included this short-term note payable that was not recorded. However, the auditor's adjustments did not include this entry to adjust the records and it remained unrecorded until paid off in July, 1987. We will reconcile accounts with our workpapers.

Recommendation 3

I recommend that the College draw down federal funds in a more timely fashion.

Response:

Concur. The College has adopted the use of the FEDWIRE Electronic Funds Transfer to request cash. This will reduce the time requirements of in excess of 30 days to about 5 days to draw funds. To balance federal requirements not to have excess cash on hand, we will need to continue to better plan the anticipated cash needs to the best of our ability.

Sincerely,

Larry L. Rasmussen

LARRY L. RASMUSSEN
Controller

LLR:sw
C: Dr. Fryett